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April 27, 1999

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

From: Alan Sasaki *[Signature]*  
Auditor-Controller

Subject: **AUDIT OF THE EAST VALLEY BOYS AND GIRLS CLUB –  
A FAMILY PRESERVATION PROGRAM SERVICE PROVIDER**

Attached is our audit report on the East Valley Boys and Girls Club's (EVBGC) Family Preservation Program contract for the initial contract period May 2, 1995 to June 30, 1996. EVBGC entered into an agreement with the Department of Children and Family Services (DCFS) to strengthen and preserve the family unit by providing comprehensive services to children and their families. Under the provisions of the contract, EVBGC received \$131,486 in start-up funding when the contract was executed. In addition, the Agency was paid a monthly rate ranging from \$954 to \$1,558 per family and received a total of \$485,400 for program services during the period of our review.

**Executive Summary**

We have questioned a total of \$157,470 in Family Preservation Program costs reported by EVBGC, consisting of \$77,092 and \$80,378 in start-up and operating costs, respectively. The questioned start-up costs consist primarily of computer and software purchases made after the Agency's start-up period. The questioned operating costs include inadequately documented salaries and benefits, and inappropriate cost allocations to the program.

If the questioned costs are disallowed by DCFS, EVBGC will have surplus operating funds of \$159,389 and surplus start-up funds totaling \$77,268. EVBGC may retain \$92,040 of the surplus operating funds for use in the next contract period. However, the remaining surplus operating funds of \$67,349 and the surplus start-up funds must be returned to the County. We also noted several areas where EVBGC needs to improve contract compliance and their system of internal control.

**Review of Report**

Our report was discussed with EVBGC management on April 20, 1999, who indicated general agreement with our findings and recommendations.

**Departmental Follow-Up**

DCFS, the contract administrator, has responsibility for following up on the audit exceptions and making the final determination on the allowability of the questioned costs. We are recommending that DCFS management resolve the questioned costs and initiate steps to collect the surplus funds to be returned to the County as a result of audit disallowances, and ensure that EVBGC takes appropriate steps to correct the contract compliance/internal control weaknesses.

DCFS has agreed to submit a written response to my office, within 60 days of the issuance date of this report, detailing the resolution of all findings contained in our report. Please call me, or have your staff call Terri Kasman at (213) 974-8475 if you have any questions.

ATS:PTM:TK  
EVBGC FPP BOARDLTR.DOC

Attachments

C: **Chief Administrative Office**

David E. Janssen, Chief Administrative Officer  
Joanne Sturges, Executive Officer  
Public Information Office

**Department of Children and Family Services**

Peter Digre, Director  
Amaryllis Watkins, Acting Deputy Director, Policy and Community  
Development  
Genevra Gilden, Chief, Quality Assurance Division  
Steve Stoltz, Executive Director, East Valley Boys and Girls Club  
Audit Committee Members (6)

**Family Preservation Program  
East Valley Boys and Girls Club  
For the Period May 2, 1995 to June 30, 1996**

**Background**

East Valley Boys and Girls Club (EVBGC) entered into a Family Preservation Program (FPP) agreement with the Los Angeles County Department of Children and Family Services (DCFS) to strengthen and preserve the family unit by providing comprehensive services to children and their families. Under the provisions of the contract, EVBGC received \$131,486 in start-up funds, and receives a monthly amount from \$954 to \$1,558 for each family depending on the family's service level.

**Scope**

We have audited the accounts and records of the EVBGC's Family Preservation Program for the period May 2, 1995 to June 30, 1996. The purpose of our audit was to determine the accuracy and appropriateness of program costs reported in EVBGC's financial records. We also evaluated the adequacy of EVBGC's accounting records, system of internal control, and compliance with the contract and applicable federal and State guidelines, including the Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Nonprofit Organizations."

**Summary of Findings**

We have questioned a total of \$157,470 in FPP costs reported in EVBGC's financial records. The questioned costs consist of \$77,092 and \$80,378 in start-up and operating costs, respectively. The questioned start-up costs consist primarily of computer and software purchases made after the Agency's start-up period. The questioned operating costs include inadequately documented salaries and benefits, and inappropriate cost allocations to the Family Preservation Program.

Details of our findings are discussed in the following exhibits:

- **Exhibit A – Schedule of Claimed and Audited Program Expenditures and Surplus Funds**

If upheld by DCFS, the questioned costs identified in Exhibit A will reduce EVBGC's allowable expenditures and will result in EVBGC having surplus start-up funds of \$77,268 and surplus operating funds of \$159,389. EVBGC will be able to retain \$92,040 in surplus operating funds for use in the next contract period. However, the remaining surplus operating funds of \$67,349 and the surplus start-up funds must be returned to the County.

- **Exhibit B – Schedule of Questioned Costs**

We have questioned \$77,092 in start-up expenditures and \$80,378 in operating expenditures.

- **Exhibit C – Contract Compliance and Internal Controls**

DCFS and EVBGC management should take the appropriate steps to correct the identified contract compliance deficiencies and improve internal controls in the areas noted.

EVBGCFPPRPT.DOC

**Family Preservation Program Contract  
East Valley Boys and Girls Club  
For the Period May 2, 1995 through June 30, 1996**

**Schedule of Claimed and Audited Program Expenditures and Surplus Funds**

<b>Claimed Program Expenditures (1)</b>	<b>Operating</b>	<b>Start-Up</b>
Salaries and Employee Benefits	\$ 90,985	
Payments to Subcontractors	193,739	\$ 13,193
Payments to Contract Employees	33,488	
Program Services Costs	11,047	
Indirect Costs	19,147	
Professional Services	380	
Transportation	1,507	
Equipment		85,382
Office Furniture		
Insurance	5,488	
Supplies/Postage	2,199	2,689
Telephone	3,474	3,229
Training	75	3,996
Miscellaneous	446	962
<b>Total Claimed Program Expenditures</b>	<b>\$ 361,975</b>	<b>\$ 109,451</b>
Augmentation of Operating Deficits	N/A	N/A
<b>Total Claimed Expenditures</b>	<b>\$ 361,975</b>	<b>\$ 109,451</b>
Less: Questioned Costs (Exhibit B)	\$ 80,378	\$ 77,092
<b>Total Reimbursable Expenditures</b>	<b>\$ 281,597</b>	<b>\$ 32,359</b>
<b>Surplus Funds</b>		
Total Payments to Contractor	\$ 485,400	\$ 131,486
Interest Earned	2,949	
Less Total Reimbursable Expenditures	(281,597)	(32,359)
Funds Returned to County	(47,363)	(21,859)
<b>Surplus Funds at June 30, 1996</b>	<b>\$ 159,389</b>	<b>\$ 77,268</b>
Maximum Allowable Carryover of Surplus Funds (3)	\$ 92,040	N/A
<b>Surplus Funds to be Returned to County (2)</b>	<b>\$ 67,349</b>	<b>\$ 77,268</b>

(1) Represents FPP expenditures and revenues recorded in the accounting records of the East Valley Boys and Girls Club

(2) Represents the amount due the County if all questioned costs reflected in Exhibit B are determined to be unallowable by DCFS.

(3) Maximum allowable carryover of surplus funds is computed as 15% of the maximum contract amount for the fourteen month period ended June 30, 1996 (\$87,658 for the two-month period May 2, 1995 through June 30, 1995 plus \$525,945 for the Fiscal Year ended June 30, 1996).

**East Valley Boys and Girls Club  
Family Preservation Program Contract  
Schedule of Questioned Costs  
For the Period May 2, 1995 through June 30, 1996**

	<u>Operating</u>	<u>Start-Up</u>
1. <b><u>Costs Incurred After the Claim Period</u></b> Certain start-up costs were incurred after May 31, 1996, and therefore, were not claimable as expenditures during the Agency's start-up period (May 2, 1995 through May 31, 1996) as specified in the FPP contract. The start-up costs consisted primarily of computer and software purchases. In addition, \$15,936 of these costs were also unsupported. To the extent the remaining \$56,349 are allowable charges and are adequately supported, they may be claimed by EVBGC for the contract period ended June 30, 1997.		\$72,285
2. <b><u>Inadequately Documented Salaries &amp; Benefits</u></b> Salaries and related employee benefits for EVBGC employees were direct charged to the FPP based on pre-determined estimates of time spent on the program, as opposed to the actual time spent on the program, as is the requirement of the FPP contract. For administrative staff, a pre-determined amount of each employees' time was included in the Agency's indirect cost pool. In addition, for the period May 1995 through October 1995, detailed time records were not maintained. To the extent employees were not "dedicated" to the FPP and worked on multiple programs, the related salaries and benefits charged to the FPP are being questioned. While some or all of these charges may have been related to the FPP, we were unable to make this determination due to the absence of detailed time records reflecting the actual distribution of employees' time.	\$65,478	
3. <b><u>Allocation of Costs to the FPP</u></b> EVBGC charged certain costs either in whole or in part to the FPP start-up and operating funds, and Agency management was either unable to support their allocation basis, or demonstrate through appropriate documentation that the costs benefited solely the Family Preservation Program. For example, costs to purchase a FAX machine, a laser printer and a photocopy machine were charged 100% to the FPP operating fund. While a portion of these costs may be attributable to the FPP contract, we were unable to validate the appropriateness of the amounts charged.	7,596	4,567
4. <b><u>Overstatement of Indirect Costs</u></b> EVBGC's indirect cost rate was not developed using a basis prescribed by the Circular. This resulted in an over allocation of costs to the FPP. We revised the Agency's indirect cost rate and questioned the difference between the indirect costs charged using the Agency's rate and the revised rate.	3,324	

**East Valley Boys and Girls Club  
Family Preservation Program Contract  
Schedule of Questioned Costs  
For the Period May 2, 1995 through June 30, 1996**

**Exhibit B  
Page 2 of 2**

	<u>Operating</u>	<u>Start-Up</u>
5. <b><u>Inadequately Supported Costs</u></b> EVBGC did not maintain documentation which adequately supported the Agency's annual membership dues to the Boys and Girls Club of America, client transportation and petty cash expenditures.	2,184	
6. <b><u>Unallowable Use of FPP Operating Funds</u></b> EVBGC incurred \$1,717 for expenditures that are not allowable under the FPP contract. These expenditures included \$862 in benefits paid on behalf of an ex-employee, \$720 in payments to subcontractors to attend meetings that are not billable under the FPP contract, and \$135 in duplicate subcontractor payments.	1,717	
7. <b><u>Unallowable Start-Up Costs</u></b> According to the FPP contract, start-up funds may only be used to fund one-time only, non-recurring expenditures. Photocopy maintenance charges totaling \$150 were charged to the FPP start-up fund. These costs are on-going operating costs and do not qualify as start-up costs under the FPP contract. EVBGC's operating fund has been credited for these charges. We also noted \$90 in food related costs charged to the FPP start-up fund. Food costs are not allowable as either start-up or operating costs under the FPP contract. In addition, EVBGC did not maintain documentation which adequately supported these costs.	(150)	240
8. <b><u>FPP Funds Used for Auxiliary Services</u></b> FPP Funds were used to provide services to families, when Auxiliary Funds should have been requested from DCFS. EVBGC should request retroactive approval for the expenditures from DCFS and credit its FPP fund for these costs.	128	
9. <b><u>Unsupported Costs</u></b> A Hotel/conference registration fee was not supported by an invoice, receipt or other appropriate documentation. The Circular requires the Agency to maintain support documentation for all FPP expenditures.	101	
<b>Total Questioned Costs</b>	<b>\$80,378</b>	<b>\$77,092</b>

**Family Preservation Program  
East Valley Boys and Girls Club  
For the Period May 2, 1995 to June 30, 1996**

**Contract Compliance and Internal Controls**

**Background**

The Los Angeles County Department of Children and Family Services (DCFS) contracts with the East Valley Boys and Girls Club (EVBGC) to operate a Family Preservation Program (FPP) to strengthen and preserve the family unit by providing comprehensive services to children and their families. Under the provisions of the contract, the EVBGC received \$131,486 in start-up funds, and receives a monthly amount from \$954 to \$1,558 for each family depending on the family's service level.

The purpose of our audit was to determine the accuracy and appropriateness of program costs reported on EVBGC's financial records. We also evaluated the adequacy of the EVBGC's accounting records, system of internal control, and compliance with the Contract and applicable federal and State guidelines, including the Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Nonprofit Organizations."

**Questioned Costs**

We questioned a total of \$157,470 in Family Preservation Program costs claimed by the EVBGC. Included in the total is \$77,092 in start-up costs, the majority of which is related to the purchase of computers and software made after the Agency's start-up period. We have also questioned \$80,378 in operating costs that consist primarily of inadequately documented salaries and benefits, and inappropriate cost allocations to the Family Preservation Program. Details of these and other questioned costs are included in Exhibit B, "Schedule of Questioned Costs".

The Department of Children and Family Services as the contract administrator is responsible for following-up on questioned costs identified in this report and making the final determination of allowability. DCFS management should resolve the \$157,470 in questioned costs and initiate steps to collect any surplus funds.

**Recommendation**

- 1. DCFS management resolve the \$157,470 in questioned costs and, where appropriate, initiate steps to collect surplus funds.**



### **Separation of Duties**

The Executive Director performs incompatible non-payroll duties. He prepares, approves, and distributes checks, maintains the accounting records and reconciles the bank account. The Contract Accounting and Operating Handbook (Handbook), which is an attachment to the FPP contract, requires the duties of preparing and distributing checks be performed by different employees, and the bank account be reconciled by someone who does not maintain the accounting records.

### **Recommendation**

- 2. EVBGC management separate the responsibilities of preparing and distributing checks, and have an individual with no other cash or record keeping responsibilities reconcile the Agency's bank account.**

### **Payroll Time Records**

We noted the following internal control weaknesses over EVBGC's payroll operations:

- Timecards were not prepared by EVBGC employees during the period May through October 1995. In addition, for the period during which timecards were prepared (November 1995 through June 1996), we noted that EVBGC charged the FPP based on pre-determined percentages of time for each employee, as opposed to actual hours worked. All employees should maintain a timecard indicating actual hours worked each day by program and total hours charged to each program during the pay period.
- Salary rate authorization and other forms (i.e., employee applications, emergency forms, evaluations, etc.) were not consistently maintained in the employees' personnel files.
- Benefit balances for earned time off (i.e., vacation, sick leave, etc.) were not maintained for all employees. Benefit balances should be maintained and monitored to ensure employees are entitled to benefit time taken.

EVBGC management should implement additional controls to correct the identified weaknesses over its payroll operations to ensure that salary payments are properly documented and accurate.

### **Recommendation**

**EVBGC management:**

- 3. Ensure all staff prepare timecards documenting the actual time spent on each program or activity.**

4. **Ensure salary rate authorization and other appropriate documents are maintained in the employees' personnel files.**
5. **Maintain appropriate documentation to support employee benefit balances (i.e., vacation time, sick time), and monitor the balances to ensure employees are entitled to benefit time taken.**

### **Controls Over Expenditures**

Our review of 15 non-payroll expenditures disclosed the need for EVBGC to improve its system of internal control over disbursements. Specifically, we noted the following:

- Nine invoices were not marked "paid", nor were they cross-referenced to the corresponding check as required.
- Original invoices could not be located for two expenditures.
- Cancelled checks could not be located for seven payroll disbursements.
- Voided checks were not maintained in two instances.

EVBGC management should ensure that all invoices are marked "paid" to prevent their re-use, and are cross-referenced to the corresponding check. In addition, EVBGC management needs to ensure that original invoices, and all cancelled and voided checks are retained for inspection upon audit.

### **Recommendations**

**EVBGC management:**

6. **Require all original invoices be marked "paid" to prevent their re-use.**
7. **Ensure original invoices are cross-referenced to the corresponding check.**
8. **Ensure original invoices, and all cancelled and voided checks are retained for inspection upon audit.**

### **Billing and Payment Issues**

We reviewed a sample of invoices submitted by seven of the Agency's subcontractors and noted the following:

- EVBGC management does not generally pay its subcontractors based upon the subcontractor generated invoice. Due to a number of errors (i.e.,

incorrect service dates, incorrect number of counseling sessions, etc.) and inconsistencies, EVBGC's Executive Director prepares his own invoice from the case notes provided by each subcontractor documenting services provided. For six of the seven invoices reviewed, the subcontractor's invoice either did not agree in total, or did not agree with the specific details (i.e., service dates, clients served) identified by EVBGC's Executive Director during his review of the case notes.

- The invoices for six subcontractors were not signed by management certifying their accuracy.

EVBGC management should ensure that subcontractor invoices submitted for payment are signed by management certifying that all services invoiced have been provided, and reject any invoice that is not complete, accurate, or certified by management.

### **Recommendations**

#### **EVBGC management:**

- 9. Ensure that subcontractor invoices submitted for payment are signed by management certifying that all services invoiced have been provided, and reject any invoice that is not complete, accurate, or certified by management.**

### **Bank Reconciliations**

Our review of EVBGC's bank reconciliations disclosed two instances where voided checks were not added back to the Agency's cash balance. At the time of our review, these voided checks had been carried as outstanding reconciling items for over 23 months. We also noted that the reviewer of the bank reconciliations does not sign the reconciliation documenting his review/approval as required by the FPP Contract Handbook.

To help ensure its assets are adequately safeguarded, EVBGC management should take steps to strengthen its system of internal controls over cash. Specifically, EVBGC needs to follow-up on and cancel, or correct, outstanding reconciling items in a timely manner. In addition, EVBGC management should ensure that management signs and dates the bank reconciliation as evidence that it has been approved.

### **Recommendations**

#### **EVBGC management:**

- 10. Implement procedures to follow-up on and cancel, or correct, outstanding reconciling items in a timely manner.**

11. **Ensure that bank reconciliations are signed to indicate that they have been reviewed and approved.**

### **Insurance**

We noted deficiencies in EVBGC's insurance coverage as follows:

- General liability coverage did not include "Broad Form Property Damage" and "Professional Liability" with at least \$1 million per occurrence and the minimum \$3 million annual aggregate.
- Worker's compensation coverage did not name the County as an additional insured, and provides for a 10 day advance written notice, instead of the required 30 day notice, in the event the policy is modified or terminated.

EVBGC should maintain insurance coverage in accordance with the FPP contract.

### **Recommendation**

12. **EVBGC management ensure that proper insurance coverage is maintained in accordance with the terms of their FPP contract.**

### **Fixed Assets**

The FPP Contract requires lead agencies to maintain a current listing of fixed assets purchased with FPP funds, and that all fixed assets be properly secured when not in use. Our review of eight fixed assets disclosed that seven items (e.g., fax machine, copier, printer, laptop, etc.) were not properly secured through the use of locking cables or other devices. We also noted that the fixed assets listing is not consistently updated to reflect fixed asset purchases made by the Agency's subcontractors.

To improve controls over fixed assets, EVBGC management should ensure that fixed assets are properly secured, and that the fixed assets listing is updated to reflect all fixed asset purchases made with FPP funds.

### **Recommendation**

**EVBGC management:**

13. **Ensure that fixed assets are properly secured by installing locking cables or other security devices.**
14. **Ensure that the fixed asset listing is updated to reflect all fixed asset purchases made with FPP funds.**

### **Allocation of Administrative Costs**

OMB Circular A-122 states that costs incurred for the benefit of more than one program should be allocated such that each program receives a reasonable share of costs. Those costs for which the relative benefit to each program can be readily identified may be directly allocated using measurable, quantifiable units (e.g., units of service, number of employees, etc.). All other costs should be accumulated as indirect costs and allocated on the basis of total direct costs (less capital expenditures, major subgrants and subcontracts) or direct salaries and wages.

We reviewed EVBGC's methodology for allocating administrative costs to the FPP and noted the following:

- Administrative costs were not allocated using a method prescribed by the Circular. The Agency's allocation base used direct salaries and wages for some programs and total direct costs for others, as not all programs incurred direct salaries. In our opinion, this did not result in an equitable distribution of costs. Furthermore, the total direct salaries and wages used in their calculation did not agree with total direct salaries and wages in the Agency's general ledger.
- The salaries and related benefits for some staff were allocated in part as direct costs, and the remaining portion as indirect costs. Pre-determined percentages of time (i.e., 80% indirect and 20% direct) were used to make these allocations as opposed to actual time spent on the direct charged programs.

To ensure the allocation of administrative costs results in a fair and equitable distribution of costs, EVBGC management needs to develop an allocation rate consistent with the methods prescribed by the Circular. In addition, EVBGC management needs to ensure that all staff prepare timecards documenting the actual time spent on each program (see Payroll Time Records section above).

### **Recommendation**

- 15. EVBGC management develop an allocation rate consistent with the methods prescribed by the Circular.**